

STATE OF INDIANA

Drinking Water State Revolving Fund Loan Program



**Intended Use Plan
State Fiscal Year 2012
July 1, 2011**

Drinking Water State Revolving Fund Loan Program Intended Use Plan SFY 2012

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State of Indiana
Drinking Water State Revolving Fund Loan Program
Intended Use Plan
SFY 2012

I. Introduction

Pursuant to the Safe Drinking Water Act (SDWA), 40 CFR 35.3555 and Fiscal Year (FY) 2012 Consolidated Appropriations Act (P.L. 112-74), the State, acting through its Indiana Finance Authority (Authority), hereby submits to the United States Environmental Protection Agency (EPA) and the public this Intended Use Plan (IUP) for State Fiscal Year (SFY) 2012 for its Drinking Water State Revolving Fund (DWSRF). An IUP is prepared each fiscal year to identify the uses of all monies available to the DWSRF during that fiscal year. Acronyms and terms used herein are defined in Exhibit A, DWSRF Loan Program Definitions.

This IUP supports all funds appropriated to the DWSRF during SFY 2012. Collectively, all grants to the DWSRF are referred to herein as Capitalization Grants.

The mission of the DWSRF Loan Program is to provide low-cost financial assistance in order to construct necessary and environmentally sound drinking water infrastructure; to facilitate statewide compliance with state and federal drinking water standards; to maintain a fiscally self-sufficient program as a continuing source of funding for improvement and protection of public health; and, to conduct any other activity permitted by the Safe Drinking Water Act.

The DWSRF Loan Program is administered by the Authority. The Authority is responsible for setting priorities for loan assistance from the DWSRF, which is evidenced by the DWSRF Loan Program Project Priority List (PPL) for SFY 2012 which is attached as Exhibit B.

II. Project Priority List (PPL)

The SFY 2012 PPL includes all applications and Projects. Projects for which a PER has been submitted have been ranked and scored. All other Projects for which the Authority received applications but for which PERs have not been submitted, are listed alphabetically un-scored and un-ranked. The names of the public water systems along with a description of the types of projects, the expected amount of assistance, and the population are listed on the PPL, as required by 40 CFR 35.3555 (c)(2)(i). In addition, a Fundable Range has been identified on the PPL.

The DWSRF Loan Program plans to continue to fund green projects. In addition to the PPL, Exhibit C sets forth green projects that may be included in the Green Project Reserve Sustainability Incentive Program.

A. Project Scoring and Ranking System

To determine which Projects will receive loans, the State follows criteria for assistance established by the SDWA and 40 CFR 35.3555(c)(1). To the extent practical, the State expects to give priority to projects that propose the following items:

1. Address the most serious risk to human health;
2. Are necessary to ensure compliance with the SDWA; and

3. Assist systems most in financial need on a per household basis according to the State affordability criteria.

The priority system, designed to implement the SDWA criteria, is attached as Exhibit D, DWSRF Loan Program Project Scoring and Ranking Worksheet. All Projects are ranked and undergo public review as required by 40 CFR 35.3555(c)(2).

In addition to being ranked and scored and in the Fundable Range, "Project readiness criteria" will be applied to assure that Projects are ready for DWSRF Loan Program financing. Steps towards "project readiness" can be demonstrated by: (1) Submitting a PER, (2) Obtaining PER approval, a construction permit and bidding the project pursuant to the DWSRF Loan Program established timeframes, and (3) Initiating the steps required by State statute and the DWSRF Loan Program to proceed with a financial closing with the DWSRF Loan Program. This involves completing the steps required to issue valid bonds, retaining a nationally recognized bond counsel to issue its unqualified, approving opinion on the validity of the bonds at closing and demonstrating the ability to repay the DWSRF Loan Program loan.

B. Fundable Range

To inform the public of estimates regarding the DWSRF's financial capacity and to direct DWSRF Loan Program assistance to the highest priorities where possible, the State calculated a "Fundable Range" for those projects that are on the PPL.

The DWSRF Loan Program uses the Fundable Range to plan and prioritize its responsibilities and resources. On July 1, 2011, the Authority determined that funds available were insufficient to fund all projects on the PPL, therefore, those Projects within the Fundable Range were afforded priority of resources; most notably, preference in closing a loan as soon as the necessary programmatic and financial steps were completed.

Projects that are outside of the Fundable Range may only receive funding in advance of those projects identified in the Fundable Range by following the Bypass Procedure outlined below. Projects that are eligible for Additional Subsidization may be funded in advance of Projects in the Fundable Range to meet the additional requirements of FY 2012 Appropriations Act. In addition, Projects that are viable only because of non-SRF financial assistance may be funded in advance of Projects in the Fundable Range.

Projects were included in the Fundable Range based on a Project's rank and score.

C. Bypass Procedure

The Authority has determined that funds on-hand are insufficient to fund projects in addition to those within the Fundable Range, therefore, the State will use the following bypass procedures to allow other projects on the PPL to receive financial assistance from the DWSRF during SFY 2012. As allowed by 40 CFR 35.3555(c)(2)(ii), these bypass procedures enable projects originally identified outside the Fundable Range to be funded when higher-priority projects have not yet progressed to a stage allowing loan closing. However, if a bypassed project becomes ready to proceed, it will have funding priority over other projects below it on the PPL.

The following Bypass Process will be used in SFY 2012:

1. The DWSRF Loan Program will note the Fundable Range on the SFY 2012 PPL and notify all Participants with Projects on the PPL of their status. Participants will be

advised that being in the Fundable Range does not mean that a loan commitment is made or that funding is guaranteed or reserved; rather it means funding priority will be given to those Projects.

2. All Participants that are eligible for subsidized financing must bid the entire DWSRF Loan Program financed project in advance of a DWSRF loan closing.
3. Up to December 31, 2011, only projects in the Fundable Range will be permitted to close a DWSRF loan. However, to meet the additional requirements of the FY 2012 Appropriations Act, the DWSRF Loan Program will give priority to Projects that are eligible to receive Additional Subsidization (in the form of principal forgiveness) and permit those projects to be funded in advance of projects in the Fundable Range. In addition, the DWSRF Loan Program will give priority to Projects that are viable only because of non-SRF financial assistance and permit those Projects to be funded in advance of the Projects in the Fundable Range.
4. After December 31, 2011, the DWSRF Loan Program will permit the bypass of projects within the Fundable Range that have not closed, or scheduled to close a loan. The DWSRF Loan Program will extend the Fundable Range by the amount of such bypassed projects. This is intended to afford Participants otherwise outside the original Fundable Range to gain priority in working quickly to close their loans.
5. After December 31, 2011, any project ready to close a DWSRF Loan Program loan under applicable DWSRF Loan Program lending requirements will be permitted to do so. If the DWSRF Loan Program determines there is insufficient lending capacity, then the highest-scored Projects at a readiness-to-proceed stage may close.
6. Notwithstanding the foregoing, after December 31, 2011, the DWSRF Loan Program may institute additional or alternative conditions and limits other than as expressed in this IUP to tentatively select Participants for closing eligibility and to bypass any such tentatively selected Participant. Without limitation, these may include (i) bypassing Participants that fail to close within a 30-day (or shorter) period of being notified of timing and eligibility to close, (ii) limiting loan closing amounts to lesser amounts than requested, (iii) requiring evidence of full project funding if all funding needs are not provided through the DWSRF Loan Program at a loan closing, and (iv) conditionally reserving funding for any Participant commitments, etc.
7. All unfunded Projects are eligible to remain on the next SFY's PPL if they inform the DWSRF Loan Program of their desire to do so.
8. Projects that are necessary to alleviate unanticipated catastrophic or emergency situations that pose a threat to public health may be elevated to the top of the PPL upon the recommendation of the Indiana Department of Environmental Management's Drinking Water Program. Emergency projects may include, but not be limited to, the loss of safe drinking water resulting from the following events: flood, fire, system collapse, tornado, weather damage or hazardous spills. Therefore, as allowed by 40 CFR 35.3555 (c)(2)(iii) such emergency projects may be added to the top of the PPL for immediate assistance. One or more Projects in the original Fundable Range may be moved out of the Fundable Range in order to provide loans to emergency projects.

III. 2012 DWSRF Loan Program Goals and Objectives

The DWSRF Loan Program sets short- and long-term goals as required by 40 CFR 35.3555(c)(5). Short-term goals and objectives are those the State expects to achieve during SFY 2012, while long-term goals and objectives are those the State expects to achieve over a longer period.

A. Short-Term Goals and Objectives

During SFY 2012, the DWSRF Loan Program expects to achieve the following short-term goals and objectives:

ST1 Goal: Seek the immediate award of the Federal Fiscal Year (FFY) 2012 Capitalization Grant. Upon award, continue to disburse loan proceeds such that the 2012 Capitalization Grant can promptly be utilized.

ST1a Goal: Ensure that at least 20% but no more than 30% of the 2012 Capitalization Grant is used to provide Additional Subsidization in the form of principal forgiveness, negative interest loans or grants.

ST1b Goal: Ensure that Davis Bacon Act wage rules apply to all assistance agreements made with funds appropriated under the 2012 Capitalization Grant.

ST2 Goal: Ensure that all DWSRF Loan Program participants achieve or maintain compliance with existing or future requirements of the Safe Drinking Water Act.

ST3 Goal: Conduct at least 30 technical inspections during the construction phase and the post-construction phase to document the construction progress, as well as the appropriate use of SRF funds.

ST4 Goal: Work diligently with Participants and effectively manage Projects to assist Participants in closing loans and constructing projects in a timely, efficient manner.

B. Long-Term Goals and Objectives

During SFY 2012, the State will continue to work to achieve the following long-term goals:

LT1 Goal: Provide financial assistance to current and future Participants, by providing low-cost financing commensurate with prudent fiscal and credit standards.

LT2 Goal: Maintain the long-term financial integrity of the DWSRF by judiciously managing its assets in order to realize a rate of return that will sustain the DWSRF in perpetuity.

LT3 Goal: Monitor all outstanding loans and the financial capability of Participants through the use of an in-house monitoring system and, in conjunction with the Bank of New York, ensure the DWSRF Loan Program continues to avoid loan defaults. In particular, review the financial statements for Participants receiving a State Board of Accounts audit in the current calendar year. Require new Participants to utilize paying agent agreements and offer all prior Participants the opportunity to enter into a paying agent agreement. Conduct financial on-site visits as warranted.

LT4 Goal: Leverage EPA Capitalization Grants to generate loans that exceed two-times the awarded grant amounts.

LT5 Goal: Monitor Participant's draws of funds to assure loans are being drawn within two years. Assure that un-drawn funds are returned to the DWSRF loan pool and made available to other Participants.

LT6 Goal: Submit required reports to EPA in a well-prepared and timely manner.

LT7 Goal: Ensure that EPA funds are accessed within one week of being made available to the State.

LT8 Goal: Periodically publish an SRF Loan Program newsletter.

LT9 Goal: Develop a comprehensive database for staff to reference all information related to each SRF project.

LT10 Goal: Coordinate the co-funding of an Indiana Finance Authority Brownfield Program and DWSRF Loan Program project.

LT11 Goal: Work diligently with Participants who received ARRA funds to effectively manage their Projects so as to meet all of the requirements of the ARRA, including the following:

LT11a Goal: Ensure that none of the funds appropriated are used for the construction, alteration, maintenance, or repair of a public building or public work unless all of the iron, steel, and manufactured goods used in the project is produced in the United States unless a waiver is given by EPA. This requirement shall be applied in a manner consistent with the U.S. obligations under international agreements.

LT11b Goal: The DWSRF Loan Program shall report no less than weekly on the use of the funds provided under the ARRA. The Drinking Water Project Tracking System will be used to gather information regarding key project characteristics and milestones. Project data shall be entered into the reporting system as soon as loan agreements are signed with recipients. The DWSRF Loan Program shall meet all reporting requirements established under the ARRA.

LT11c Goal: Ensure that Davis-Bacon Act wage rules apply to all applicable assistance agreements.

LT12 Goal: Report all uses of DWSRF funds in the Drinking Water Project Benefits Reporting database as required by the EPA and the Federal Funding Accountability and Transparency Act.

LT13 Goal: Ensure that the DWSRF Loan Program and its participants comply as required with Disadvantaged Business Enterprise, Federal environmental cross cutters and the Single Audit Act.

LT14 Goal: Encourage the funding of green projects that qualify for the Green Project Reserve Sustainability Incentive.

LT15 Goal: Monitor DWSRF Set-Aside uses and activities and reconcile balances to EPA Set-Aside account balances quarterly. Continue to encourage the transfer of unused balances to the DWSRF, thereby increasing the DWSRF Set-Aside spending rate. Coordinate with the Indiana Department of Environmental Management to develop new Set-Aside programs as needed.

LT16 Goal: Provide at least 15% of the DWSRF to systems serving fewer than 10,000 persons.

LT17 Goal: Complete an internal drinking water technical training course to ensure that all SRF Loan Program technical reviewers can competently review both wastewater and drinking water Projects.

LT18 Goal: Further enhance coordination with the Indiana Department of Environmental Management's Drinking Water Branch and Enforcement Program to identify noncompliant systems that may benefit from DWSRF funding.

IV. Financial Status of the DWSRF

A. Sources and Uses of Funds

Capitalization Grants, Guarantee Revenue Bond proceeds, and State Match Revenue Bond proceeds are used to capitalize the DWSRF Loan Program. In turn, the majority of the bond proceeds are loaned to Participants for eligible projects. The DWSRF Loan Program utilizes its Capitalization Grants to serve as security for Guarantee Revenue Bonds issued by the State, the proceeds of which are loaned to Participants. Earnings on the Capitalization Grants serve as a source of payment for Guarantee Revenue Bonds and State Match Revenue Bonds issued by the State.

As required by 40 CFR 35.3555(c)(4), Exhibit E, Intended Uses of the Funds, identifies the intended uses of the funds held in DWSRF accounts, and how those uses support the goals of the DWSRF Loan Program. Exhibit E also demonstrates how the Authority meets the requirements of 40 CFR 35.3550(1) by using all of the funds in the DWSRF in an expeditious and timely manner.

B. Available Funds

During SFY 2012, the State intends to provide funds to meet existing loan commitments and to make new loans through the issuance of additional Guarantee Revenue Bonds and State Match Bonds. The issuance of these bonds will occur as, when and in amounts that are necessary for the State to meet the cash flow borrowing needs of existing and new loans. Binding commitments are only made from the DWSRF when a financial assistance agreement is entered into with a Participant.

In order to maximize the amount of funds that the DWSRF Loan Program may lend, the State employs a leveraged financing structure, which limits precision in predicting capacity. Future funding capacity can vary materially if there are changes in the calculating assumptions such as future loan interest rates, future interest rates on Guarantee Revenue Bonds and State Match Revenue Bonds, the rate at which Capitalization Grants are converted to cash, the amount of future Capitalization Grants, and future investment rates.

The maximum amount of funding available for loans depends on:

1. Demand for the DWSRF Loan Program as evidenced by Projects;
2. Readiness-to-proceed of Participants as evidenced by completion of a PER and other steps necessary to secure a DWSRF Loan Program loan within SFY 2012; and

3. Capacity of the DWSRF to issue additional Guarantee Revenue Bonds and State Match Revenue Bonds to generate additional loanable funds, which requires sufficient cash flows to repay them.

The State expects to seek a SFY 2012 Capitalization Grant, which is estimated to be \$14,970,000. The State has been awarded the SFY 2011 Capitalization Grant in the amount of \$15,709,000.

C. Allocation of Funds to the DWSRF and the Set-Aside Accounts

The SDWA permits the State to use a Capitalization Grant for a variety of purposes to protect drinking water. In addition to making loans for the construction of drinking water infrastructure, the State may use the Capitalization Grant to support activities in the Indiana Department of Environmental Management Drinking Water Program, such as: provide technical assistance to drinking water systems; improve the technical, managerial, or financial capacity of drinking water systems; and develop programs to protect sources of drinking water. As required by 40 CFR 35.3555 (c)(3)(i), the State must provide the rationale for allocating Capitalization Grant funds between infrastructure loans and other activities known as "Set-Asides."

In SFY 2012, The State will bank 4%, or approximately \$600,200, of the Administrative Set-Aside. See Exhibit F, State Fiscal Year 2012 Set-Aside Work Plan.

As stated in EPA Policy Memo of February 9, 1999, the Indiana DWSRF Loan Program can earmark 1452 (g) (2) (B) Set-Aside funds that it intends to use at a later time and for which a workplan has not been prepared. These unspecified funds – also called "banked" funds - are deposited into the DWSRF and directed toward infrastructure projects in the short-term. The DWSRF Loan Program retains the authority to reclaim the funds from a future Capitalization Grant.

A historic summary of Indiana DWSRF banked funds is presented in Exhibit G, Unspecified DWSRF Set-Aside Funds.

D. Other Types of Assistance Provided

The SRF Pooled Loan Program supplements the DWSRF Loan Program. Participants in the SRF Pooled Loan Program are eligible for financing at the same "AAA" interest rate available to the SRF Loan Program at the time of the Participant's loan closing. Most Participants realize substantial savings when compared to their "open market" rate. Since the SRF Pooled Loan Program supplements the DWSRF Loan Program, the State has the right to blend a large project with assistance from the SRF Pooled Loan Program. For instance, the State may require non-construction loans ("planning and design") loans to be funded by the SRF Pooled Loan Program. Furthermore, the State may require requests for additional funding to be funded by the SRF Pooled Loan Program.

The State will consider refinancing, commensurate with federal and state law, where (i) a Participant is proposing a new drinking water project that will result in a significant improvement in drinking water quality and (ii) as a result of state law or other restrictions on the Participant (including existing bond ordinance, trust indenture or credit agreement provisions), a refinancing of the existing debt is necessary or convenient as a matter of law or prudent fiscal or credit policy.

The DWSRF Loan Program intends to provide at least 20% but no more than 30% of the 2012 Capitalization Grant funds as Additional Subsidization to eligible recipients in the form of

forgiveness of principal, negative interest loans or grants or any combination of these. Pursuant to Indiana Code 13-18-21-2(a), the DWSRF Loan Program has the authority to offer loans and other financial assistance for the benefit of participants, including forgiveness of principal if allowed under federal law. The majority of the minimum amount of funds required to be given as Additional Subsidization shall be provided to those communities that have a lower median household income and/or high post-project user rates and/or have multiple Safe Drinking Water Act violations. This will allow the DWSRF Loan Program to assist, as much as possible, communities that could not otherwise afford an SRF loan to receive the Additional Subsidization. The DWSRF Loan Program has not set a cap on the amount of principal forgiveness that a community may receive. The DWSRF Loan Program shall identify those communities who will receive Additional Subsidization and the amount of the Additional Subsidization prior to executing a financial assistance agreement. In cases where a project cost exceeds principal forgiveness, base SRF loan funds will make up a portion or all of the difference.

E. Transfers between DWSRF and CWSRF

The State has retained the flexibility to permit transfers between the DWSRF and the CWSRF of Capitalization Grants and other funds held in or allocable to such funds to the extent permitted by the CWA and the SDWA, specifically 40 CFR 35.3555(c)(8). Exhibit E, Intended Uses of the Funds, identifies transfer balances.

Each transfer would only be made between accounts established for like purposes and be subject to like restrictions by the SRF Loan Programs and would be accounted for on a cumulative net basis. Consistent with prior transfers, the State expects that transfers would be from funds held in its Grant Equity account or other funds held in the SRF and that such funds would be used to generate additional lending capacity under the leverage loan structure of the DWSRF. The State would expect only to make transfers in a manner consistent with agreements related to outstanding Guarantee Revenue Bonds and State Match Revenue Bonds.

F. Interest Rates

As allowed by 40 CFR 35.3555 (c)(3)(iii), Indiana's DWSRF Loan Program uses a Base Interest Rate, which is re-set on the first business day of each January, April, July, and October. The Base Rate is calculated by using 90 percent of the daily average 20-year AAA-rated, general obligation bond Municipal Market Data (MMD) composite index for the most recent calendar month. The Base Rate is discounted further based on the Participant's median household income (MHI) from 2000 Census data and projected post-project monthly user rates.

The Participant's financial information is reviewed by the DWSRF Loan Program to finalize a DWSRF interest rate. The Participant's rate consultant completes a rate study before a rate ordinance is adopted by the Participant's governing body.

Participants that delay the repayment of new debt around existing debt service may be charged 25 additional basis points to help offset the additional subsidy they are afforded. The DWSRF Loan Program has the discretion to waive the extra charge for Participants. Any Participant proposing to use a "wrap structure" will be required to justify it by showing a substantial, positive effect on User Rates.

Interest rates for not-for-profits and for-profit entities will be set at the discretion of the State and may be higher, but no lower than the interest rates calculated by the means set forth immediately above.

G. Terms

Consistent with applicable law, all DWSRF Loan Program loans, will be structured so that minimum annual principal repayments commence one year after expected completion of the project, and final principal payment will occur no later than 20 years after expected completion of the project. Additionally, the State expects level debt service payments except in limited circumstances, such as where DWSRF Loan Program debt service is wrapped around a Participant's existing debt based on user rate affordability. Executing a DWSRF Loan Program loan on any basis other than level, aggregate annual debt service is subject to additional State review and approval.

H. Cross-collateralization of the CWSRF with the DWSRF

To the extent permitted by the Clean Water Act (CWA) and the SDWA, and their incumbent regulations, specifically 40 CFR 35.3555(c)(9), the State has cross-collateralized the Clean Water State Revolving Fund (CWSRF) and the DWSRF Loan Programs to optimize their capitalization requirements and to better manage the specific funding needs of projects assisted through them.

This cross-collateralization arrangement maximizes the security for bonds issued by the State to capitalize the SRF Loan Programs. Accordingly, this could relate to and affect all types of funds held in them. The State expects that any such transfers would occur at any time necessary to prevent a default on any such bonds and would be made between accounts established for like purposes and subject to like restrictions. To date, no transfers of this nature have been made.

The State expects to retain the flexibility to reimburse, on a cumulative net basis, any transfers made under a cross-collateralization arrangement. Because such a cross-collateralization arrangement is a contingent security concept and transfers are not expected or planned to occur, the State does not expect this arrangement to affect negatively the funding capacity of the SRF Loan Programs. However, if such transfers occur and are not reimbursed, it may affect the burdened Fund's ability to make a volume of additional loans it otherwise might have been able to make.

I. Fees Assessed on Recipients

As permitted by 40 CFR 35.3555 (c)(3)(iv), the State assesses Participants a Loan Closing Fee of \$1,000 to offset loan processing costs incurred by the DWSRF Loan Program. The DWSRF Loan Program may also assess a Non-Use Fee on funds not used for project costs two years following the loan closing in order to encourage prompt use of funds. The total dollar amount in the DWSRF Administrative Fee account as of June 30, 2011 was \$48,466.

Participants must use non-SRF monies to fund payment of the above mentioned fees.

J. DWSRF Financial Planning and Long-term Financial Health

The State employs financial advisor, Lamont Financial Services Corporation, to periodically evaluate the financial status and health of the DWSRF and make recommendations that support fiscal sustainability, in accordance with 40 CFR 35.3555 (c)(3)(v).

K. Assurances

As required by 40 CFR 31.26, the Authority, hereby affirms that it retains an independent auditor to review and audit the use of funds deposited in the DWSRF Loan Program in accordance with

the auditing procedures of the federal General Accounting Office and the requirements of the federal Single Audit Act and the federal Office of Management and Budget Circular A-133.

V. Public Participation

Pursuant to 40 CFR 35.3555 (b), the State will conduct a meaningful public review during the development of the SFY 2012 IUP. The DWSRF Loan Program will public notice the IUP dated July 1, 2011 on the SRF Loan Program website from April 5, 2012 to April 20, 2012.

The DWSRF Loan Program will respond to any major SFY 2012 IUP comment or concern; the process of such response will be determined by the nature of the comment or concern.

According to 40 CFR 35.3555(d), this IUP, including the PPL, may be amended during SFY 2012 in accordance with federal and state law, and any amendments to the PPL for the addition of drinking water projects will be subject to public review.

VI. Small Systems

Of the total amount available for assistance from the DWSRF each year, the State will make at least 15 percent available solely for providing loan assistance to small systems to the extent such funds can be obligated for eligible projects, as required by 40 CFR 35.3555 (c)(2)(iv). A small system is a public water system that regularly serves 10,000 or fewer persons. Population is a criterion of the priority system – small systems receive more points than large systems and the State monitors the population of Participants in order to verify this requirement.

VII. Set-Asides

On July 1, 2011, the balance of unexpended dollars in the Set-Aside funds was \$481,629.92. The balance in each Set-Aside is listed in the attached spreadsheet, Exhibit H, Summary of Set-Aside Funds.

VIII. Disadvantaged Community Assistance

As permitted by 40 CFR 35.3555(c)(7), the State may provide assistance to disadvantaged communities. The State defines a disadvantaged community as a Participant with both 1) a Median Household Income (MHI) below \$33,669, as established by the 2000 US Census, and 2) an estimated post project user rate greater than \$45.00 per month. These communities receive the lowest interest rate the State provides to DWSRF Participants. The 2012 Capitalization Grant requires at least 20% but no more than 30% of the funds appropriated to be used to provide Additional Subsidization to eligible recipients in the form of forgiveness of principal, negative interest loans or grants or any combination of these.

EXHIBIT A

DWSRF Loan Program Definitions

Exhibit A: DWSRF Loan Program Definitions

Terms used in this document have the following meanings:

Additional Subsidization means to provide assistance in the form of principal forgiveness, negative interest rate loans, or grants in accordance with Fiscal Year (FY) 2012 Consolidated Appropriations Act (P.L. 112-74) (a). Priority for additional subsidies should be given to communities that could not otherwise afford such projects.

ARRA means the “American Recovery and Reinvestment Act of 2009” enacted on February 17, 2009.

Binding Commitment means a closed DWSRF loan.

Bypass Process means the procedure which allows the State to bypass projects identified in a Fundable Range if the Indiana Finance Authority determines that there may be insufficient resources to fund all loans on the PPL during the SFY. It allows projects originally identified outside the Fundable Range to be funded when higher-priority projects have not yet progressed to a stage allowing for loan closing.

Capitalization Grant means a federal grant, as evidenced by an agreement with the United States Environmental Protection Agency that provides funds to capitalize the DWSRF.

Clean Water SRF (CWSRF) Loan Program means the State's revolving fund loan program for wastewater infrastructure established under and pursuant to I.C. 13-18-21 and the programs afforded thereby.

CWA means the Clean Water Act of 1972, as amended and supplemented and codified at 33 United States Code Section 1251 *et seq.*, and the rules and regulations promulgated thereunder.

Drinking Water SRF (DWSRF) means the State's Drinking Water State Revolving Fund created in accordance with the SDWA and state law.

DWSRF Loan Program means the State's revolving fund loan program for drinking water infrastructure established under and pursuant to I.C. 13-18-21 and the programs afforded thereby.

Environmental Protection Agency (EPA) means the federal agency responsible for promulgating regulations to implement environmental statutes including the Safe Drinking Water Act and from which the DWSRF receives Capitalization Grants.

Federal Fiscal Year (FFY) means the fiscal year beginning October 1st and ending September 30th.

Fiscal Year (FY) means the fiscal year for the year indicated.

Fundable Range means an estimated current loan capacity which is determined by fiscal assumptions. Defined at the commencement of the SFY, it determines which projects on the PPL are expected to receive assistance from the available funds subject to the DWSRF's Bypass Process.

Green Project Reserve (GPR) Sustainability Incentive Program means a program offered by the SRF Loan Programs to Participants to encourage the incorporation of green project components into Projects.

Guarantee Revenue Bonds means one or more series of revenue bonds issued from time-to-time by the State to fund the DWSRF Loan Program. Federal Capitalization Grants provide security for, and the DWSRF is the source of revenue for, the payment of Guarantee Revenue Bonds. Guarantee Revenue Bond net proceeds are loaned to Participants to finance Projects.

Indiana Department of Environmental Management (IDEM) means the State's environmental regulatory agency.

Indiana Finance Authority (Authority) means the State entity that administers the Indiana SRF Loan Programs pursuant to Indiana Code 4-4-11.

Intended Use Plan (IUP) means the document that is required to be prepared annually by the DWSRF Loan Program to support the State's Capitalization Grant application, which identifies the uses of all monies available to the DWSRF.

Maximum Contaminant Level (MCL) means the highest level of a contaminant that EPA allows in drinking water.

Median Household Income (MHI) means the average annual income for a given region as determined by the federal census data.

Municipal Market Data (MMD) means the composite index used in pricing municipal bonds.

Participant(s) means public water systems that are eligible for financial assistance from the DWSRF Loan Program. Public Water Systems eligible for DWSRF Loan Program assistance are for-profit and non-profit Community Water Systems (e.g. municipalities, political subdivisions, and private mobile home parks) and non-profit Non-Community Water Systems (e.g. schools, churches, day cares, and group homes).

Political Subdivision means a municipal corporation, special taxing district, sanitary/conservancy district, regional water, sewer, or waste district, or any other separate local governmental entity. "Political Subdivision" is more specifically described in Indiana Code 13-11-2-164.

Preliminary Engineering Report (PER) means the document(s) submitted by the Participant that provides the information necessary for the DWSRF Loan Program to determine the technical, economic, and environmental adequacy of a Project.

Pre-Planning Meeting means an initial meeting held with a Participant to gain an understanding of the Participant's needs, and to explain DWSRF Loan Program requirements.

Project Priority List (PPL) means the list of eligible Projects, seeking financial assistance, in the order of their priority ranking. It includes Projects that are preliminarily scored and unranked as well as those that are scored and ranked on the basis of needs, prepared pursuant to Section 1452 of the SDWA.

Project means a drinking water infrastructure project proposed by Participants for DWSRF financing, which will be reviewed for qualification and ranking under Section 1452 of the SDWA.

Public Water System (PWS) means a system that supplies piped water for human consumption and has at least 15 service connections or 25 persons who are served by the system for 60 or more days each year.

Scoring and Ranking System means the priority ranking system; a system by which the DWSRF Loan Program staff evaluates and ranks Projects for listing on the DWSRF Loan Program PPL.

SDWA means the Safe Drinking Water Act of 1974, as amended, Section 1452, and the rules and regulations promulgated thereunder including 40 CFR Part 35.

Set-Asides means the allowed uses of DWSRF Capitalization Grant monies specifically identified in Section 1452 of the SDWA that are not directly associated with the construction of capital improvement projects.

Small System Technical Assistance Fund (SSTAF) means funds from DWSRF Set-Asides that are made available to qualified Participants in order to provide assistance with planning and design costs related to Participant's DWSRF Loan Program project.

State means the state of Indiana.

State Fiscal Year (SFY) means the period of time beginning July 1st and ending June 30th.

State Match means the State's commitment to provide matching funds equal to 20 percent of each Capitalization Grant for the DWSRF.

State Match Revenue Bonds means one or more series of revenue bonds issued by the Indiana Finance Authority as needed to fund its State Match.

State Revolving Fund (SRF) Loan Programs or SRF Loan Programs means both the DWSRF and CWSRF Loan Programs.

Wellhead Protection means a strategy to protect groundwater drinking supplies from pollution that can threaten health, lives, and community development.

EXHIBIT B

DWSRF Loan Program Project Priority List

Exhibit B: DWSRF Loan Program Project Priority List (PPL)

INDIANA DRINKING WATER STATE REVOLVING FUND (DWSRF) LOAN PROGRAM

2012 Project Priority List

Projects Applying for Financial Assistance (20 Year Loan) in State Fiscal Year 2012 (July 1, 2011- June 30, 2012)

Fundable Range: \$26 Million

PPL Rank ²	PPL Score	Project Name	MHI ¹	Population	PWSID #	SRF Project No.	Green Project Reserve	Project Description	Total Project Cost	Total	Estimated Post-Project User Rate (per 4,000 gallons) ¹
1	18	Yankee Water Authority	\$42,576	1,500	5287008	DW 10078702	\$250,152	water well, treatment plant, mains	\$3,768,000	\$3,768,000	\$39.28
2	17	Rensselaer	\$34,821	6,263	5227005	DW 10123702		TBD water treatment plant	\$3,424,000	\$7,192,000	\$20.77
3	17	Bargersville	\$51,425	28,000	5241001	DW 12014102		TBD water treatment plant, wells, main	\$9,680,000	\$16,872,000	\$47.21
4	17	South Lawrence Utilities	\$34,490	6,777	5247007	DW 09164701	\$37,000	water storage, lab building	\$1,850,000	\$18,722,000	\$37.16
5	16	Brooklyn	\$42,880	1,545	5235002	DW 11025501		TBD water storage, mains	\$995,703	\$19,717,703	\$28.02
6	15	Fort Wayne	\$36,518	250,000	5202020	DW 11030202	\$10,664,406	water treatment, mains, utility purchase	\$24,000,000	\$43,717,703	\$19.85
7	15	Vincennes	\$26,289	18,701	5242014	DW 09604201	\$820,000	water mains, treatment plant	\$7,800,000	\$51,517,703	\$12.99
8	14	Brownsburg	\$53,629	22,140	5222002	DW 10133201	\$212,000	water treatment plant	\$4,240,000	\$55,757,703	\$14.28
9	14	Greenville	\$49,271	4,363	5222004	DW 10152201		TBD water storage, booster station	\$1,077,250	\$56,834,953	\$32.12
10	14	Linton	\$26,477	5,774	5228005	DW 11052801		TBD water treatment plant, mains	\$4,708,827	\$61,543,780	varies
11	13	Speedway	\$37,713	12,881	5249008	DW 11074901	\$2,723,000	water treatment, wells	\$7,000,000	\$68,543,780	\$19.55
12	13	Wolcott	\$37,563	989	5291015	DW 09629101	\$150,000	water mains, treatment plant	\$748,125	\$69,291,905	\$22.90
13	13	Grandview	\$35,417	874	5274005	DW 09457401	\$28,034	water tower	\$1,311,000	\$70,602,905	\$42.13
14	12	Ingalls	\$43,456	7,600	5248012	DW 11014804	\$0	wells, mains	\$1,075,000	\$71,677,905	\$30.48
15	12	Indianapolis Water - White River Intake	\$40,051	869,570	5249004	DW 09534905	\$1,126,000	surface water intake	\$28,700,000	\$100,377,905	varies
16	11	Yorktown	\$50,974	4,684	5218014	DW 09671801	\$0	water well, main	\$750,000	\$101,127,905	\$35.64
17	11	Elrod Water Company (Hoosier Hills Regional Water District)	\$44,029	8,793	5269002	DW 10166901	\$250,000	water storage, mains, wells, treatment	\$22,576,325	\$123,704,230	\$29.17
18	10	Cedar Lake	\$43,897	2,214	5245047	DW 10134503	\$0	water main	\$2,400,000	\$126,104,230	\$36.04
19	10	North Lawrence Water Authority	\$36,280	11,340	5247004	DW 10084702	\$0	water mains	\$1,128,000	\$127,232,230	\$36.84
20	8	Indianapolis Water - Main Replacements	\$40,051	869,570	5249004	DW 09504902	\$22,086	water mains	\$409,000	\$127,641,230	varies
TOTAL PRELIMINARY ENGINEERING REPORTS SUBMITTED									\$16,282,678	\$127,641,230	

Applications Only: Not Scored and Unranked

PPL Rank	PPL Score	Project Name	MHI	Population	PWSID #	SRF Project No.	Green Project Reserve	Project Description	Total Project Cost	Total	Post-Project / Current User Rate (per 4,000 gallons)
Application Only	--	Albany	\$33,314	2,368	5218001	DW 10011801		TBD water treatment plant, storage, mains	\$1,720,000	\$1,720,000	\$30.00
Application Only	--	Bloomington	\$36,500	319	5261001	DW 11066101		TBD water treatment plant	\$1,195,000	\$2,915,000	\$30.58
Application Only	--	Indianapolis Water - Switchgear Upgrades	\$40,051	869,570	5249004	DW 10104901		TBD electrical upgrades	\$7,993,000	\$10,908,000	varies
Application Only	--	Millersburg	\$43,750	900	5220015	DW 10032001		TBD water treatment plant	\$868,000	\$11,776,000	\$33.92
Application Only	--	Westfield	\$52,963	18,152	5229009	DW 10052901		TBD water mains, well, storage, building	\$1,390,000	\$13,166,000	\$14.04
TOTAL APPLICATIONS ONLY SUBMITTED									\$13,166,000		
TOTAL PRELIMINARY ENGINEERING REPORTS AND APPLICATIONS SUBMITTED									\$16,282,678	\$140,807,230	

Footnotes:

¹ Additional subsidization may be provided to participants who have a low MHI and/or high post-project user rates. The amount of the additional subsidization shall be determined and set forth in the financial assistance agreement.

² A community must submit a complete Preliminary Engineering Report to the DWSRF Loan Program in order for the project to be scored and ranked on the PPL.

EXHIBIT C

Green Project Reserve
Sustainability Incentive

Exhibit C: Green Project Reserve Sustainability Incentive

Community	Project Description	Total Project Cost	Green Project Description	Business Case (BC) or Categorical Exemption (CE)	Category 1: Green Infrastructure	Category 2: Water Efficiency	Category 3: Energy Efficiency	Category 4: Environmentally Innovative	Total Eligible GPR Cost (sum of Categories 1-4)
Albany	water treatment plant, water storage, water mains	\$1,720,000	application only	TBA	TBA	TBA	TBA	TBA	TBA
Bargersville (phase 2)	water treatment plant	\$8,930,000	VFDs, water main, booster station	BC			\$395,231	\$366,120	\$761,351
Bloomington	water treatment plant	\$995,200	application only	TBA	TBA	TBA	TBA	TBA	TBA
Brooklyn	water storage, mains	\$995,703	water mains	BC		\$398,674	\$319,424		\$718,098
Brownsburg	water treatment plant	\$4,240,000	onsite chem generation, direct drilling, recycled materials	BC				\$212,000	\$212,000
Cedar Lake	water main	\$2,400,000	none						\$0
Elrod Water Company (Hoosier Hills Regional Water District)	water storage, mains, wells, treatment	\$22,576,325	water main replacement	BC			\$250,000		\$250,000
Fort Wayne	water treatment, mains, utility purchase	\$26,906,000	water mains, UV, solar panels	BC		\$2,088,000	\$458,410	\$8,118,000	\$10,664,410
Grandview	water tower	\$1,311,000	SCADA	BC		\$28,034			\$28,034
Greenville	water storage and booster station	\$1,077,250	none						\$0
Indianapolis Water - Main Replacements	water mains	\$409,000	water mains	BC		\$22,086			\$22,086
Indianapolis Water - Switchgear Upgrades	electrical upgrades	\$7,993,000	application only	TBA	TBA	TBA	TBA	TBA	TBA
Indianapolis Water - White River Intake	surface water intake	\$28,700,000	VFDs, SCADA	BC			\$1,126,000		\$1,126,000
Ingalls	wells, main	\$775,612	none						\$0
Linton	water treatment plant, mains	\$4,708,827	water mains	BC		\$550,000			\$550,000
Millersburg	water treatment plant	\$868,000	application only	TBA	TBA	TBA	TBA	TBA	TBA
North Lawrence Water Authority	water mains	\$1,128,000	none	NA					\$0
Rensselaer	water treatment plant	\$4,445,000	VFDs, bio-retention	BC		\$635,380	\$360,640	\$17,170	\$1,013,190
South Lawrence Utilities	water storage, lab building	\$1,850,000	SCADA	BC		\$37,000			\$37,000
Speedway	water treatment plant, wells	\$7,000,000	VFD, pumps, SCADA	BC			\$2,723,000		\$2,723,000
Vincennes	water mains, water treatment plant	\$7,800,000	wtp/SCADA	BC		\$432,000	\$388,000		\$820,000
Westfield	water mains, well, storage, building	\$1,390,000	application only	TBA	TBA	TBA	TBA	TBA	TBA
Wolcott	water mains, water treatment plant	\$748,125	Radio Read Meters	CE		\$150,000			\$150,000
Yankeetown Water Authority	water well, treatment plant, mains	\$3,768,000	water main replacement	BC		\$250,152			\$250,152
Yorktown	water well, water main	\$750,000	none	NA					\$0
TOTAL		\$143,485,042							\$19,325,321

EXHIBIT D

DWSRF Loan Program Project Scoring and Ranking Worksheet



INDIANA FINANCE AUTHORITY
DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM
PROJECT SCORING AND RANKING WORKSHEET

Project Name: _____

SRF Project Number: _____

PWSID#: _____

SRF Worksheet Reviewer: _____

Date: _____

Exhibit D: DWSRF Loan Program Project Scoring and Ranking Worksheet

DWSRF Loan Program Project Scoring and Ranking Worksheet

INSTRUCTIONS:

Projects are scored using the following criteria in order to be ranked according to their priority on the Drinking Water State Revolving Fund (DWSRF) Loan Program Project Priority List (PPL). To the extent practical, the DWSRF Loan Program expects to give priority to projects that:

1. Address the most serious risk to human health;
2. Are necessary to ensure compliance with the Safe Drinking Water Act (SDWA); and
3. Assist systems most in financial need on a per household basis according to the State's affordability criteria.

Points are assigned to proposed projects that intend to correct deficiencies. For example, if the Public Water System has persistent violations of a Maximum Contaminant Level (MCL) but the proposed project does not address that problem, the points associated with persistent violations of a MCL will not be assigned. However, if the Participant does not have persistent MCL violations, but the project will address another Public Water System's persistent MCL violations, such as through consolidation, the points associated with the persistent MCL violations will be assigned.

The total number of available points is 100. If projects score equally, the project with the highest initial total first in Section 1, then Section 2, and finally Section 3 will prevail. If a tie persists, then the project that serves the smallest population will prevail.

A project must submit a complete Preliminary Engineering Report (PER) to the DWSRF Loan Program in order to be scored and ranked on the PPL.

Exhibit D: DWSRF Loan Program Project Scoring and Ranking Worksheet

Section 1: Acute Public Health / SDWA Compliance (upper limit 55 points)

Instructions: Assign points to projects that address acute public health concerns occurring within the last three years. The upper limit for points in this section is 55. Acute public health concerns affect an individual in the immediate short-term.

Criteria to be corrected by project	Points for this criteria	Points for the project
1. Administrative Order, Agreed Order, or the Indiana Department of Environmental Management (IDEM) declares a waterborne emergency at existing waterworks for acute public health concerns	50 points	
2. Surface Water Treatment Rule violation, (including Backwash Filter Rule) i.e., inadequately treated surface water or groundwater under the influence of surface water	50 points	
3. Persistent Total Coliform Rule (TCR) or Nitrate violations	50 points	
4. Inadequate individual home water supplies documented by the local or state health department to show health hazards, such as exceeding drinking water Maximum Contaminant Levels	50 points	
5. Consolidation of a non-complying public water system (acute public health concerns)	50 points	
6. Condition determined to be an acute public health concern by IDEM or the Indiana State Department of Health (ISDH)	50 points	
7. Compliance maintained in anticipation of a new regulation relating to acute public health	45 points	
Initial total is:		

The upper limit for points in Section 1: Acute Public Health / SDWA Compliance is 55.

The final score for Section 1 is: _____

Section 2: Chronic Public Health / SDWA Compliance (upper limit 25 points)

Instructions: Assign points to projects that address chronic public health concerns occurring within the last three years. The upper limit for points in this section is 25 points. Chronic public health concerns affect an individual over a lifetime.

Criteria to be corrected by project	Points for this Criteria	Points for the project
1. Administrative Order or Agreed Order for chronic public health concerns	20 points	
2. Persistent MCL violations (Volatile Organic Compounds, Synthetic Organic Compounds, Inorganic Compounds, Radionuclides or Disinfection Byproducts Rule)	20 points	
3. Lead and Copper Action Level violations	20 points	
4. Significant Noncompliance (SNC) as determined by IDEM	20 points	
5. Consolidation of a non-complying public water system (chronic public health concerns)	20 points	
6. Condition determined to be a chronic public health concern by IDEM or ISDH	20 points	
7. Compliance maintained in anticipation of a new regulation relating to chronic public health	15 points	
Initial total is:		

The upper limit for points in Section 2: Chronic Public Health / SDWA Compliance is 25.

The final score for Section 2 is: _____

Exhibit D: DWSRF Loan Program Project Scoring and Ranking Worksheet

Section 3: Public Health / Water Works Regulations Compliance (upper limit 10 points)

Instructions: Assign points to projects for infrastructure improvements that will bring the existing public water systems into compliance with IDEM and/or water works regulations, such as Recommended Standards For Water Works 2003 Edition (A Report of the Water Supply Committee of the Great Lakes – Upper Mississippi River Board of State and Provincial Public Health and Environmental Managers). The upper limit for points in this section is 10 points.

Criteria to be corrected by project	Points for this Criteria	Points for the project
1. Resolve an IDEM connection ban, early warning notice or a non-SDWA violation	10 points	
2. Resolve inadequate pressure in water works	10 points	
3. Resolve conditions of inadequate quantity of a water supply, including individual home wells	7 points	
4. Ensure that drinking water receives appropriate treatment to meet secondary standards	7 points	
5. Ensure storage capacity in the water works is adequate	7 points	
6. Reduce leakage and increase accountability	5 points	
7. Ensure adequate flow in distribution system	5 points	
8. Prevent conditions favoring the entrance of contaminants into the distribution system	3 points	
9. Install eligible security measures (alternate intake, fencing, lighting, cameras, motion detectors, secure chemical and fuel storage, security hatches, and access panels)	3 points	
Initial total is:		

The upper limit for points in Section 3: Public Health / Water Works Regulations Compliance is 10.

The final score for Section 3 is: _____

Section 4: Affordability and Population (upper limit 6 points)

Instructions: Affordability points are assigned to assist community water systems most in need on a per household basis. Therefore, non-community systems are not eligible to receive affordability points. The upper limit for points in this section is 6 points. Sources for median household income and population data include the 2000 U.S. Census and the IDEM Safe Drinking Water Information System (SDWIS). The post project annual water bill is based on an average monthly water bill (based on 4,000 gallons) x 12 months and rounded to one decimal place.

Criteria to be corrected by project	Points for this Criteria	Points for the project
<u>A. Affordability: post-project annual water bill as a percentage of median household income</u>		
<i>Community water systems only.</i>		
Greater than or equal to 1.5 %	5 points	
1.0 – 1.4 %	4 points	
Less than or equal to 0.9 %	1 point	
<u>B. Population served by the project</u>		
<i>Community and non-community water systems</i>		
Less than or equal to 10,000	1 point	
Greater than or equal to 10,001	0 points	
Initial total is:		

The upper limit for points in Section 4: Affordability and Population is 6.

The final score for Section 4 is: _____

Exhibit D: DWSRF Loan Program Project Scoring and Ranking Worksheet

Section 5: Bonus (upper limit 4 points)

Instructions: Bonus points encourage community water systems to perform planning and proper operation and maintenance. Non-community water systems are not eligible for bonus points. The upper limit for points in this section is 4 points.

Criteria to be corrected by project	Points for this Criteria	Points for the project
A. Other Funds Available		
Points are assigned to encourage community water systems to have other funds (cash on hand, grants or other loans) in addition to the construction loan from the DWSRF Loan Program. The percentage is calculated by dividing the other funds by the total project cost and rounding to a whole number. Assign points based on whether the system has the committed funds (Awarded) or is still in process of applying for other funds (Applying).		
Less than or equal to 10 %	0 points	
11-50 % (Awarded: 2 points / Applying: 1 points)	1-2 points	
Greater than or equal to 50% (Awarded: 3 points / Applying: 2 points)	2-3 points	
B. Capacity Development / Sustainability		
1. Completes a self-assessment survey to assess the technical, managerial and financial capability of the utility, such as CUPSS (Check Up System for Small Systems), but does not have to be IDEM specific	1 point	
2. Attends training for Utility Board Drinking Water Administrators	1 point	
3. Consolidation of a SDWA compliant public water system or interconnection	1 point	
4. Zero SDWA violations in last 12 months	1 point	
5. Project includes Wellhead Protection Plan Implementation measures	1 point	
6. Member of InWARN Network	1 point	
7. Recognized with a Hoosier Water Guardian Award	1 point	
8. >95% customers metered	1 point	
9. Unaccounted for water <15%	1 point	
10. Public Water System utilizes a Water Conservation Ordinance	1 point	
11. Project includes the remediation/redevelopment of a brownfield (IC 13-11-2-19.3) in conjunction with the Indiana Finance Authority Brownfields Program	1 point	
12. Project incorporates sustainable infrastructure as identified on the Green Project Reserve Sustainability Incentive Drinking Water Checklist. One point is awarded for each category, four points maximum.		
Category 1: Green Infrastructure	1 point	
Category 2: Water Efficiency	1 point	
Category 3: Energy Efficiency	1 point	
Category 4: Environmentally Innovative	1 point	
Initial total is:		

The upper limit for points in Section 5: Bonus is 4. The final score for Section 5 is: _____

Exhibit D: DWSRF Loan Program Project Scoring and Ranking Worksheet

DWSRF Project Scoring and Ranking Table	
Section 1: Acute Public Health / SDWA Compliance (upper limit 55 points)	
Section 2: Chronic Public Health / SDWA Compliance (upper limit 25 points)	
Section 3: Public Health / Water Works Regulations Compliance (upper limit 10 points)	
Section 4: Affordability and Population (upper limit 6 points)	
Section 5: Bonus (upper limit 4 points)	
TOTAL SCORE:	

EXHIBIT E

Intended Uses of the Fund

Exhibit E: Intended Uses of Funds in the Indiana Finance Authority's
SRF Accounts for SFY¹ 2012

This Exhibit identifies the intended uses of the funds held in various accounts of the DWSRF, and how those uses support the goals of the DWSRF. This Exhibit also demonstrates how the Authority meets the requirements of 40 CFR 35.3550(1) by using all of the funds in the DWSRF in an expeditious and timely manner.

Sources, Uses and Available Balances in SRF Accounts

The following accounts have been created and exist under the Authority's Drinking Water Trust Indenture and comprise its DWSRF. Set forth on the attached Schedule 1 (the "Use Schedule") is detail on what funds are held in the DWSRF and how they were expeditiously and timely used in SFY 2011 and will continue to be in perpetuity.

Drinking Water Purchase Account.

Sources of Funds: Funds held in this account² come from proceeds of Program Bonds³ issued by the Authority. The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed as of the end of the SFY 2011 as well as loans anticipated to be closed in SFY 2012 and after.

Uses of Funds: These funds are used to make loans for qualified Proposed Projects as permitted by 40 CFR 35.3525(a). This use directly furthers the primary purpose of the DWSRF Loan Program by financing qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: As of July 1, 2011, the aggregate amount of closed and committed loans exceeded the balance in this account ("Excess Commitments"). As additional loans are closed in SFY 2012, such committed amounts will contribute to additional Excess Commitments. The aggregate amount held in this account as of July 1, 2011 is shown in the Use Schedule. Accordingly, none of the funds presently on deposit in this account are available for other SRF Loan Program purposes except to finance closed and committed loans related to qualified Proposed Projects.

¹ Refers to the State Fiscal Year ending on June 30 of the year listed.

² Pursuant to SRF Indenture modification, the former State Match Loan Account was consolidated into this Account effective May 30, 2007.

³ These bonds are revenue bonds within the meaning of 40 CFR 35.3525(e), the net proceeds of which were deposited in the DWSRF. To date, the Authority (or its predecessor issuer) has issued multiple series of bonds including several refunding series (the "Program Bonds"), a portion of which are issued for the DWSRF. An allocated portion of the Program Bonds were deposited in the Purchase Account (with such bonds being referred to as the "Guarantee Revenue Bonds" in this Plan) to make loans from the DWSRF and a further allocated portion of the Program Bonds were deposited in the Purchase Account (or the former State Match Loan Account) as State Match (with such bonds being referred to as the "State Match Revenue Bonds" in this Plan) to make loans or for other permitted purposes; their proceeds (together with other match sources) have matched all capitalization grants awarded to date as well as a portion of the not-yet-available FFY 2012 (FFY refers to the Federal Fiscal Year ending September 30 of the year listed) grant by reason of over-match.

Drinking Water Participant Loan Principal Account.

Sources of Funds: Funds held in this account come from principal payments on loans made from the Purchase Account and the former State Match Loan Account.

Uses of Funds: These funds are used to make payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and the Authority's Operating Agreement with EPA. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

Drinking Water Participant Loan Interest Account.

Sources of Funds: Funds held in this account come from interest payments on loans made from the Purchase Account and the former State Match Loan Account.

Uses of Funds: These funds are used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

DRINKING WATER RESERVE⁴ contains the following accounts:

Drinking Water Reserve Earnings Account.

Sources of Funds: Funds held in this account come from interest payments on loans made from the Purchase Account and the State Match Loan Account together with other earnings on invested Reserve accounts.

Uses of Funds: These funds are *first* used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR

⁴ Pursuant to SRF Indenture modification, effective May 30, 2007, the following Reserve accounts are pledged to particular series of Program Bonds by means of subaccounts therein. Such pledged accounts serve as the Reserve for only one Series of Program Bonds (a "Series Reserve") and are held at a fixed amount (a "Series Reserve Requirement") subject to annual reductions as principal on such Series of Program Bonds are repaid as required by the SRF indenture. While not labeled under this Reserve group of accounts, amounts held in Equity serve as security for the payment of Program Bonds, and thus, are part of the "reserve" for the purposes of this Plan and the federal Safe Drinking Water Act, as amended.

35.3525(e) and 40 CFR 35.3550(g)(3), respectively, and *secondly* transferred to the Reserve Deficiency Account, as described below.

Available Balance: Approximately annually, this account is fully depleted to make payments on Program Bonds, with any excess available balances to be transferred to the Reserve Deficiency Account. Accordingly, none of the funds presently on deposit⁵ in this account are available for other SRF purposes.

Drinking Water Reserve Grant Account.

Sources of Funds: Funds held in this account⁶ come from federal capitalization grants drawn when funds are loaned, up to the amount therein (and in the Equity Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.⁷

Uses of Funds: These funds are used (i) as security⁸ for outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and (ii) as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively. This use both directly and indirectly furthers the primary purpose of the DWSRF Loan Program by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: The aggregate amount held in this account (as of July 1, 2011 and as anticipated in SFY 2012) is shown in the Use Schedule.⁹ In furtherance of these purposes, the funds in this account are invested with certain short-term investments, State and Local Government Series (SLGS) securities, treasury and/or agencies obligations, and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

⁵ And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

⁶ Pursuant to SRF Indenture modification, the former State Match Account was consolidated into this Account effective May 30, 2007.

⁷ State Match in this account came from State Match Revenue Bonds, and is from principal on loan repayments funded from such proceeds. As of July 1, 2011, such amounts related to State Match on deposit in this account have not been applied to Guarantee Revenue Bonds but may be so applied to make any regularly scheduled payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and the Authority's Operating Agreement with EPA.

⁸ Pursuant to the financing indentures related to the cross-collateralized outstanding Program Bonds, the Authority is presently required to maintain reserves of at least \$554.2 million, which is to be held in the Reserve accounts and is not anticipated to be used to make loans to Participants. A portion of the reserves have been allocated to the DWSRF for purpose of this Intended Use Plan (as shown in the amount set out in the Use Schedule). This is a minimum invested funds requirement. However, the Authority views invested amounts in excess of the foregoing minimum requirement as security and as a source of payment for the outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement will increase as additional Program Bonds are issued in SFY 2012 and beyond. Such excess purposes are served by the Equity accounts to the extent that they are not anticipated to be used to make loans to Participants.

⁹ And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

Drinking Water Reserve Deficiency Account.

Sources of Funds: Funds held in this account, if any, will come from other Reserve accounts discussed above when the amounts held in the group of accounts serving as the Reserve any Series of Program Bonds (a "Series Reserve") exceeds its Series Reserve Requirement.

Uses of Funds: These funds are used to fund each Series Reserve by immediately transferring them as necessary (the *first* possible use) to each Series Reserve that is below its Series Reserve Requirement on each February 1 and August 1 and secondly (if not required for such *first* use) shall be transferred to an Equity account (the *secondary* use; which is expected to occur). Any such transfer is either made to a Grant Account or Earnings Account depending on the source of the funds transferred to the Reserve Deficiency Account.

Available Balance: No amounts were held in this account as of July 1, 2011 nor are any so anticipated in SFY 2012.

DRINKING WATER EQUITY¹⁰ contains the following accounts:

Drinking Water Equity Grant Account.

Sources of Funds: Funds held in this account come from federal capitalization grants drawn when funds are loaned, up to the amount therein (and in the Reserve Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.

Uses of Funds: These funds are used (i) as security¹¹ and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e), (ii) to fund any transfers to the Authority's CWSRF as permitted by law including Section 302 of the Safe Drinking Water Act, and (iii) to fund that portion of any loans closed but not presently on deposit in the Purchase Account¹² in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the DWSRF Loan Program by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

¹⁰ While funds held in these Equity accounts are not pledged to the payment of Program Bonds, the SRF Program Representative may, but is not required to, direct that they be used to pay Program Bonds. Further, the Authority would expect such to occur if it was necessary to pay such bonds and, thus, while not labeled under as Reserve in this Plan, the DWSRF treats it as part of the "reserve" for the purposes of this Plan and the federal Safe Drinking Water Act, as amended.

¹¹ Pursuant to the financing indentures, the Authority may use these funds if the Reserve Grant Account were insufficient to pay outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement of Reserve accounts will increase as additional Program Bonds are issued in SFY 2012 and will result in a transfer of any uncommitted amounts in the Equity Grant Account to the Reserve Grant Account inclusive of any Capitalization Grants drawn into the SRF after July 1, 2011.

¹² In addition to meeting any Excess Commitments as of July 1, 2011, additional Excess Commitments will occur before additional Guarantee Revenue Bonds are issued. This will result from closing new loans for qualified Proposed Projects with (a) approved preliminary engineering reports (PERs) as of July 1, 2011, (b) PERs submitted and under review by the DWSRF as of July 1, 2011 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2012), each as detailed in the Use Schedule.

Available Balance: The aggregate amount held in this account (as of July 1, 2011 and as anticipated in SFY 2012) is shown in the Use Schedule.¹³ In furtherance of these purposes, the funds in this account are invested with certain short-term investments, State and Local Government Series (SLGS) securities, and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

Drinking Water Equity Earnings Account.

Sources of Funds: Funds held in this account come from (a) transfers from the Reserve Earnings Account and the Participant Loan Interest Account undertaken approximately annually or at the time of an issuance of additional Program Bonds and (b) earnings on amounts invested in the Equity accounts.

Uses of Funds: These funds are used (i) as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively, like the Equity Grant Account and (ii) to fund that portion of any loans closed but not on deposit in the Purchase Account in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the SRF by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: The aggregate amount held in this account as of July 1, 2011 is shown in the Use Schedule.¹⁴

ADDITIONAL INFORMATION CONCERNING EXPECTED USES OF SRF FUNDS

Use of Available Balances to Meet Closed Loan Commitments. Under its existing practices, the Authority closes DWSRF loans with Participants without the necessity of having available balances in its Purchase Account to fully fund those loan commitments on the date a DWSRF loan is closed. As of July 1, 2011, there were Excess Commitments. By closing new loans for qualified Proposed Projects with (a) approved PERs as of July 1, 2011, (b) PERs submitted and under review by the DWSRF as of July 1, 2011 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2012), the aggregate amount of Excess Commitments would become as shown in the Use Schedule.

The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed and those anticipated to be closed in SFY 2012. Additionally, certain amounts held in the Equity Grant Account and Equity Earnings Account are available and would be used to meet a portion of the projected funding requirements for loans presently closed (and

¹³ And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

¹⁴ And before any transfers to the CWSRF as discussed elsewhere in this Exhibit.

those anticipated to be closed in SFY 2012) in the event additional Guarantee Revenue Bonds could not to be issued.

Use of Available Balances as a Reserve and Source of Payment for Guarantee Revenue Bonds. Amounts held in the Reserve Deficiency Account, Equity Grant Account, Reserve Grant Account Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e). In addition to this use, a portion of these funds are also held to meet (a) Excess Commitments in SFY 2012 in the event additional Guarantee Revenue Bonds could not to be issued and (b) any transfers to the CWSRF as permitted by law.

Use of Available Balances as a Source of Payment for State Match Revenue Bonds. All SRF earnings including amounts held in the Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for State Match Revenue Bonds as permitted by 40 CFR 35.3550(g)(3). In addition to this use, a portion of these funds are held to meet (a) Excess Commitments in SFY 2012 in the event additional Guarantee Revenue Bonds could not to be issued and (b) any transfers to the CWSRF as permitted by law.

Use of Available Balances to Possibly Transfer Funds to the Wastewater SRF. As of July 1, 2011, about \$23.6 million has been transferred to DWSRF. As of July 1, 2011, the cumulative transfer amount available for additional transfers from CWSRF to the DWSRF could result in up to approximately \$61.2 million of allowable transfers which includes 33% of the FFY 2011 grant. The full amount of any such potential transfers is banked.

Further, transfers can be made from DWSRF to the CWSRF up to the cumulative amount made from CWSRF to DWSRF to date, together with an amount equal to 33 percent of aggregate Drinking Water Capitalization Grants awarded. The full amount of any such potential transfers is banked.

Since the inception of the DWSRF, the Authority (or its predecessor) has banked transfers up to maximum permitted limit and continues to do so; funds held in the Equity Grant Account might be used for this purpose. Such transfer may be effectuated by a transfer of an invested balance from (a) one or more of the Authority's Investment Agreements or (b) other investments. These invested funds would then be used to support the issuance of Guarantee Revenue Bonds, the proceeds of which would be used to make Program loans. Any such determination would be based on whether the DWSRF or CWSRF program is more in need of funds (when considering their respective priorities) than the other. While a transfer from DWSRF to the CWSRF is not expected, it is also banked to reserve the Authority's discretion.

Exhibit E - Schedule 1

	Account Balances* as of: 30-Jun-2011 (Actual)	Future Deposits in SFY
<u>A. Funds Committed to Projects by CWSRF</u>		
Purchase Account	\$ -	\$ -
	<u>\$ -</u>	<u>\$ -</u>
<u>B. Other Funds Held in CWSRF</u>		
Reserve Grant Account	\$ 328,900,000	\$ -
Reserve Earnings Account	3,900,000	-
Reserve Support Account	7,100,000	-
Reserve Deficiency Account	-	-
Equity Grant Account	242,900,000	48,600,000
Equity Earnings Account	111,700,000	
Equity Administrative Account	-	
	<u>\$ 694,500,000</u>	<u>\$ 48,600,000</u>
Total Available Funds (A. and B. above)	<u><u>\$ 694,500,000</u></u>	<u><u>\$ 48,600,000</u></u>

Proof of Timely & Expedious Use of Above Funds Held in CWSRF*

Closed Loan (Undrawn loan amounts covered by on-hand Purchase A/C Funds)	\$ -
Closed Loan Excess Commitments (after Application of above Purchase A/C **)	222,400,000
Closed Loan to be funded directly from Equity (undrawn portion of loan)	-
PERs In-house (approved & under-review) Awaiting Loan Closing	405,100,000
Other Projects on new SFY's PPL, Requesting Loan Funding	713,300,000
1. Use: to cover Loan Demand***	<u>1,340,800,000</u>
Funds held in existing Administrative Account	0
Remainder of 4% banked funds available for Administrative purposes	9,600,000
2. Use: to cover Administrative Costs in Perpetuity	<u>9,600,000</u>
3. Use: to cover Series Reserve Requirement	<u>438,500,000</u>
Possible Uses of Funds (1, 2 & 3 above without considering other secondary purposes for holding them in the CWSRF) # are as follows:	<u>\$ 1,788,900,000</u>
Uses of Funds (1, 2 & 3 above):	\$ 1,788,900,000
Less: Total Available Funds (A. and B. above)	743,100,000
Amount by which "Possible Uses of Funds" EXCEED "Total Available Funds"	<u><u>\$ 1,045,800,000</u></u>

Notes:

* Amounts are approximate & rounded to nearest \$100,000

** This amount is a net unfunded amount of closed loans after application of the June 30th on-hand balance.

*** While use will likely be met with future Program Bonds, possible that on-hand funds could be used. When covered by issuance of Program Bonds used to make subsidized loan, a reserve of 40% to 50% is funded from Equity and additional Program Bonds are used to make pooled loan at a market rate. Such Program Bonds would not be sufficient to meet all needs.

Exhibit E - Schedule 2
SRF Investment Agreements

Funds held in the Reserve Grant Account and certain other accounts are invested in the following Investment Agreements which mature, and may be terminated at the Authority's option only, as follows:

Investment Agreement with:	Final Maturity Date ¹⁵	Optional Termination Date ¹⁶	Scheduled Repayments of Invested Amounts ¹⁷
Citigroup Global Company Inc., Dated, February 13, 2006	8/1/16	Any time	\$1 to \$5 million
Trinity Plus Funding Company, LLC, Dated March 21, 2006	2/1/29	N/A	\$3 to \$10 million
FSA Capital Management Services LLC, Dated June 19, 2007	2/1/28	N/A	\$-0- to \$15 million

The Authority has structured these Investment Agreements in a manner to assure as great as flexibility as practical to serve the variety of needs required by the SRF Loan Program. The long-term nature of these investments assures long-term access to quality investment sources and, thereby, balances revenue certainty against known debt obligations associated with Program Bonds. This fosters the ability to issue additional Program Bonds to fund a prudent, maximum level of leveraged loans. Further, repayment features are consistent with the reserve purposes associated with most of these invested funds. These optional termination dates and scheduled repayment features associated with the Investment Agreements, in total, assure access to invested balances at reasonable intervals and are expected to facilitate future leveraged bond issues. However, these features restrict the SRF Loan Program's ability to make use of these invested sums for other purpose (including certain of those uses recited elsewhere in this Exhibit) without negotiating different termination provisions which could result in realized losses upon any such alternate termination depending upon market conditions and other factors.

¹⁵ If not repaid sooner, all invested sums are required to be repaid to the Authority by this date.

¹⁶ On or after this date, the Authority may terminate the investment at its option and all invested sums would then be required to be repaid to the Authority without any premium (or other market to market payment).

¹⁷ Each February 1, commencing in 2008, a portion of the invested sums is required to be repaid annually to the Authority. These annual amounts are set out in a schedule to each agreement and range within the amounts shown in this column.

EXHIBIT F

State Fiscal Year 2012 Set-Aside Work Plan

Exhibit F: SFY 2012 Set-Aside Work Plan

In SFY 2012 (July 1, 2011 – June 30, 2012), Indiana's Drinking Water State Revolving Fund (DWSRF) Loan Program will use its DWSRF Set-Aside allotments to continue promoting the implementation of the Safe Drinking Water Act (SDWA).

ADMINISTRATIVE SET-ASIDE (SDWA 1452(g)(2))

In SFY 2012, The State will bank 4%, or approximately \$600,200, of the Administrative Set-Aside. The DWSRF Loan Program retains the authority to reclaim these funds from future capitalization grants.

EXHIBIT G

Unspecified DWSRF Set-Aside Funds

Exhibit G: Unspecified DWSRF Set-Aside Funds (Amount Banked)

	<u>Administrative</u>	<u>Small System Technical Assistance</u>	<u>State Program Management</u>	Totals
FY 2004	\$389,972	\$0	\$0	\$389,972
FY 2005	\$31,777	\$0	\$0	\$31,777
FY 2006	\$0	\$0	\$0	\$0
FY 2007	\$459,360	\$229,680	\$0	\$689,040
FY 2008	\$360,000	\$130,000	\$0	\$490,000
FY 2009	\$0	\$0	\$0	\$0
FY 2009 ARRA	\$1,088,480	\$0	\$0	\$1,088,480
FY 2010	\$452,760	\$0	\$0	\$452,760
FY 2011	\$314,180	\$0	\$0	\$314,180
Totals	\$3,096,529	\$359,680	\$0	\$3,456,209

EXHIBIT H

Summary of the Set-Aside Funds

Exhibit H - Summary of Set-Aside Funds in SFY 2011

Cap Grant Year	Set-Aside	Current Award Amount	Balance on 7/1/10	ASAP Activity Date	Activity Amount	Description	Balance on 6/30/11
2006	Administrative	\$ 417,488.00	\$ 208,744.00	1/28/2011	\$ (208,744.00)	Transfer to the loan fund	\$ -
2008	Small System Technical Assistance	\$ 100,000.00	\$ 100,000.00	No draws			\$ 100,000.00
2009	Administrative	\$ 454,680.00	\$ 324,229.78	1/28/2011	\$ (173,612.44)	Salary and fringe	
				4/7/2011	\$ (150,617.34)	Salary and fringe	\$ -
2010	Administrative	\$ 452,760.00	\$ -	4/7/2011	\$ (2,117.06)	Salary and fringe	
				5/28/2011	\$ 452,760.00	Amendment 1: deposit from the loan fund	
				6/30/2011	\$ (69,013.02)	Salary and fringe	\$ 381,629.92
2011	Administrative	\$ 309,160.00	\$ -	No draws		Awarded but not available	\$ -